Influence of Microfinance Banks on Growth of Small And Medium Enterprises (SMES) in Kano State, Nigeria

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Abstract:- The importance of SMEs in terms of job creation and value addition has drawn the attention of scholars and policymakers, but their growth has been slow in Nigeria. Some empirical researches imply that a lack of funds may be one of the causes of these issues. Thus, the study examines the influence of Microfinance Banks on SME development (SMEs). We used descriptive statistics to evaluate the data and basic linear regression to test the hypothesis in SPSS. The study indicated that MFB loans help SMEs grow. A descriptive statistical investigation revealed that MFB interest rates, eligibility conditions, and payback terms can help SMEs grow. The study finally recommended, MFBs should extend their clients' loans for longer periods and spread the payback out over a longer length of time.

Keywords:- *Microfinance Banks, Small and Medium Enterprises, funding, SMEs development.*

I. INTRODUCTION

Credit is an important element for promoting small and medium enterprises (SMEs) in Nigeria. SME contribute to economic and sustainable development in developed and developing economy like Nigeria (CBN, 2021). Its vital role in job growth, income redistribution, and wealth creation is increasingly recognized (NISER, 2004). SMEs account for 87 percent of all Nigerian businesses (USAID, 2020).

Microfinance has existed since the advent of organized banking institutions, although in the shadows. But it has taken four decades for genuine global initiatives to codify financial services for the poor. Today, hundreds of Micro Finance Institutions (MFI) serve an estimated 100-200 million global poor (Christen, 1995). Thus, analyzing microfinance's impact on Nigerian entrepreneurship is critical.

A. *Statement of the Problem*

SME's are vital to a country's economic progress, especially in Nigeria. Entrepreneurship is essential for growth, poverty reduction, and job creation. It is the foundation of industrialization. Several studies have examined the influence of microfinance on entrepreneurship. Amin, Rai, and Topa (2003) examined microfinance's potential to reach the underprivileged. But Copestake, Halotra, and Johnson (2001) study microfinance's influence on enterprises and individuals. Copestakeet al. (2001) focused on business success and household income to demonstrate a link between microfinance availability and overall poverty.

Evans and Adams (1999) take a different tack on microfinance. They claim that while microfinance is a useful instrument in reducing poverty, over 75% of impoverished people opt not to join for various reasons. (2001) uses three major indicators to assess existing microfinance programs in China (Brau and Woller, 2004). (targeting, sustainability and overall impact).

As a result, researchers and practitioners alike are becoming increasingly concerned about the influence of microfinance on society. Despite this, present research does not adequately support the link between MFBs and developing country SME development.

It is, therefore, worthwhile to investigate the topic of whether MFBs affect SME development, as is the case here. There has been little research on the impact of microfinance on the development of small and medium-sized enterprises (SMEs) in Nigeria. MFB studies on SME development have mostly been undertaken in industrialized nations, according to research (Ojo, 2009), whereas Nigerian studies have primarily examined how MFBs affect small and medium-sized enterprises in southern Nigeria.

This means that study is needed to fill a significant knowledge gap.

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B. *Objectives of the Study*

- To determine the impact of microfinance banks funding on development of SME's in Kano metropolis.
- To determine the impact of capital loans from microfinance banks on the productivity of SME's in Kano metropolis;

II. LITERATURE REVIEW

A. *CONCEPT OF MICROFINANCE*

Microfinance is the Non-traditional financial institutions provide financial services to the poor. The African Development Bank (2018) defined microfinance as "A wide range of financial services to disadvantaged and low-income households and microenterprises,"

B. *Concept of SMEs*

In Nigeria, as in other countries, SMEs are classified according to their asset value, annual revenue, and employee count. Within this paradigm, the definitions of "middle" and "small" businesses vary by economy and time period. This classification is reviewed by the National Council of Industry (FCI) of Nigeria. These classifications differ from those used by the Federal Ministry of Industries, the Central Bank of Nigeria, and the Nigerian Association of Small Scale Industries (NASSI).

It defines SMEs as "enterprises with a total capital employed of not less than N1.5 million, but not more than N200 million, including working capital but excluding cost of land" and/or "staff strength of not fewer than 10 and not more than 300".

Table l: Definition of SMEs by Nigerian institutions

	Asset Value (₦'m)			Annual Turnover y (₦'m)			No of Employees		
Institution/Class.	**MSE**	SSE	ME	**MSE**	SSE	ME	**MSE**	SSE	ME
Fed. Min. of Ind.	<200	<50	n.a.	n.a.	n.a.	n.a.	<300	<100	<10
Central Bank	<150	<1	n.a.	<150	<1	n.a.	<100	<50	n.a.
NERFUND	n.a.	<10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NASSI	n.a.	<40	<1	n.a.	<40	n.a.	n.a.	3 –	n.a.
NASME	<150	<50	<1	<500	<100	<10	<100	<50	<10

Table l: Definition of SMEs by Nigerian institutions

Source: World Bank, SME Country Mapping 2021

C. *MFBs and SME Development*

Getting finance is thought to help SMEs grow. Credit is supposed to increase income, employment, and hence reduce poverty. Credit is thought to help disadvantaged people overcome liquidity issues and make investments (Hiedhues, 1995). Microcredit's major goal is to enhance the lives of the disadvantaged by providing them with tiny loans that traditional financial institutions do not provide.

Entrepreneurs can use sustainable financial services to build assets and reduce their dependency on external shocks (Ehigiamusoe, 2005). MFBs exist to serve the disadvantaged by providing financial services (loans and savings) (Godquin, 2004). Providing credit to the needy serves two functions, say Kevan and Wydick (2001). First, borrowing money to invest in small firms typically improves household expenditure and welfare benefits. Second, microcredit encourages firm capitalization, employment development, and long-term income growth in the informal sector.

III. RESEARCH METHODOLOGY

This section focused on the research methods utilized to achieve the study's aims. This study uses a survey research design. The study population is made up of 1,165 registered SMEs in Kano Metropolis, according to Nigeria Business Directory. The choice of Kano metropolis is due to the obvious concentration and predominance of SMEs in these places, as well as the abundance of MFBs available to SMEs. The sample size for a population of 1,165 was 286 using Yamane's (1967) sample size table (quoted in Israel, 1992). (table affixed as an appendix). The sample was drawn at random from the Kano Chamber of Commerce, Industry, Mines and Agriculture's list of SMEs (KACCIMA). The data was acquired using a three-part survey questionnaire. The Cronbach Coefficient Alpha was used in SPSS V20 to assess the questionnaire's validity. The dependability coefficient was 0.69, which is above 0.6 and hence suitable for research (Nunnanly, 1978).

Based on respondents' responses, the independent variable, microfinance bank funding, was assessed for its impact on SME growth. As the dependent variable, sales growth was used to examine the influence of MFBs funding on SME development. Simple regression was employed to analyses the data.

IV. FINDINGS AND DISCUSSION OF OUTCOMES

	N	Minimum	Maximum	Mean	Std. Deviation
Access to funding	258	1.00	5.00	3.1124	1.12582
Reasonability of Interest rates	258	1.00	5.00	2.8333	1.11905
Duration for loan repayment	258	1.00	5.00	2.6512	.88349
Adequacy of loan received	258	1.00	5.00	3.8721	.85706
Difficulty in accessing funding	258	1.00	5.00	3.2597	1.11864
Ability to respond to demand variations	258	1.00	5.00	3.6977	.96317
Availabilty of competent sales force	258	2.00	5.00	3.9341	.79854
Ability to introduce new products/services	258	2.00	5.00	3.7248	.69870
	258	1.00	5.00	3.5853	.83369
Valid N (listwise)	258				

Table 2: Descriptive Statistics

Source: Researchers fieldwork 2019

The data in the table above shows the average and standard deviation of the replies to the questionnaires that were conducted. To gauge their agreement or disagreement, respondents were given the option of rating their agreement or disagreement on a scale of 1 to 5, with 1 indicating strong agreement and 1 indicating strong disagreement. A majority of respondents rated their agreement with the statement as either 5 or 4, with 3 indicating disagreement and 4 indicating disagreement. Satisfaction levels are on average 2.5. There was a mean score of 3.1, which indicates that respondents thought microcredit was easily available. The first variable looks at the extent of access of small businesses to loans. We may conclude that microcredits are not readily available to small business owners in Kano, Nigeria, as a consequence of this study.

Survey respondents were slightly more satisfied with the rate of interest charged by MFBs than they were with the overall satisfaction level, with a mean satisfaction score of 2.8. The average score of 2.6 for the length of time that MFBs need borrowers to repay their loans indicates that SMEs are satisfied with it. As a result, the loan repayment period is too short to affect SMEs growth.

According to SME respondents, loans received from MFBs are adequate even though they agreed with the respondents that SMEs had difficulty obtaining credit from MFBs. The results mean score of 3.6, which indicates that the respondents believe their businesses are able to adjust to market fluctuations.

SMEs had a 3.7 mean score on new products/services, which indicates that loans from MFBs have allowed them to expand their product and service offerings.

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.443[a]	.197	.193	.43816

Table 3:Model Summary

Source: Researchers fieldwork 2019

a. Predictors: (Constant), FD

Regression analysis results are summarized in the table above. The coefficient of determination is abbreviated as "R square." As the name suggests, it shows how much of the (sample) variance in the dependent variable can be traced back to the independent variable (s). Based on the results of this investigation, microfinance banks were responsible for 19 percent of sales growth variances. As an additional point of reference, "standard error of estimate" suggests that on average, SMEs' development deviates from the regression line by a score of.438. As a result, supporting SMEs is a poor indicator of their growth. The level of significance at .000 been less than the established level of significance at 0.05the null hypothesis is rejected and the alternate hypothesis is accepted.

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Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.020	1	12.020	62.607	.000b
	Residual	49.148	256	.192		
	Total	61.168	257			

a. Dependent Variable: SG
b. Predictors: (Constant), FD

Source: Researchers fieldwork 2019

Table 4: ANOVA

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.487	.152		16.341	.000
	FD	.377	.048	.443	7.912	.000

a. Dependent Variable: SG

Table 5: Coefficients

From the statistical table above, the computed t – value of 7.912 is greater than the table value of 1.96, therefore, the null hypothesis "There is no impact of microfinance banks funding in the sustainable development of SMEs in Kano metropolis" is rejected and the alternate hypothesis is accepted, meaning that microfinance banks funding has an impact on SME development in Kano metropolis.

The findings of this research are consistent with that of Olu (2009), Osunde&Mayowa (2012), and Christopher (2012).

V. CONCLUSION AND RECOMMENDATION

The goal of this research is to empirically determine the influence of MFBs on SME development. The study shows MFB loans has an impact on the growth of SMEs. Researchers observed that even while SMEs face difficulties in obtaining financing from MFBs, MFBs' tendencies to support SMEs' financial requirements are widely recognized. Because of this, it is advised that;

- Achievable eligibility standards for SMEs should be adopted by MFBs to ease their access to funding.
- Second, MFBs should extend their clients' loans for longer periods and spread the payback out over a longer length of time.

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